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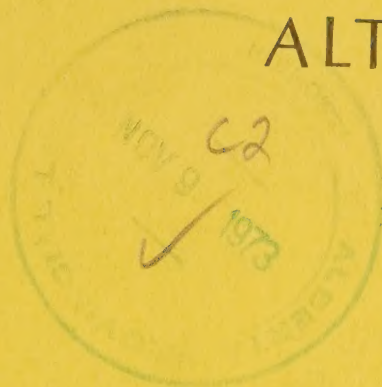
ALTERNATIVES

IN

FINANCING

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# ALTERNATIVE POLICIES AND STRATEGIES

IN

## THE FINANCING OF POST-SECONDARY EDUCATION

Prepared for

The Council of Ministers of Education of Canada

by

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May, 1971

ALTERNATIVE POLICIES AND STRATEGIES  
IN  
THE FINANCING OF POST-SECONDARY EDUCATION

FOREWORD

This paper is one of a series of contributions to an inquiry, sponsored by the Council of Ministers of Education of Canada, into federal-provincial and inter-provincial relationships in the financing of post-secondary education. Other studies in the series include:

1. *The Evolution of Federal Participation in Post-Secondary Education -- by David Stager.*
2. *Demand and Cost Projections -- by Pierre Van Tu.*
3. *Current Methods of Federal Participation -- by John Graham.*
4. *Research, Graduate Studies, and Special Projects -- by Bernard Sheehan.*
5. *Student and Graduate Mobility and the Implications for Finance -- by Pierre Paul Proulx.*

These companion studies have provided a comprehensive base from which to embark upon this exploration of alternative methods. Stager has traced the history of the federal government's involvement in post-secondary education -- demonstrating that federal interventions have come about as the result of need, of opportunity, and of prevailing political climates. Graham, Sheehan, and Proulx have examined the current scene -- the actual effects of prevailing fiscal arrangements, of federal support of research and special programs, and of the mobility



## II.

patterns of students and graduates. Finally, Van Tu has given us an indication of what may be in store in the future -- if current trends in demand and cost are sustained.

. . . . .

Planning for post-secondary education, in any country, involves a host of difficult issues: Who ought to be provided with what kinds of opportunities? In what kinds of institutions? At whose expense? and so on.

In a federated country such as Canada, the matter becomes even more complex because of the uncertainties that arise over inter-governmental relationships: How and by whom should educational policy be established? How should the rights and needs of each level of government be safeguarded? What proportion of the cost should be borne by each level of government? and so on.

In Section I, I attempt to develop bases for policy choice. The first of these, a Conceptual Framework, identifies and places in rational perspective the various policy issues which need to be considered. The second, a Socio-Political Framework, casts the issues in a political, social, and cultural context and proposes a series of principles or guidelines to be observed in the process of policy selection.

Many of the ideas included in these introductory frameworks have been summarized from the responses to an opinionnaire which was administered to a small group (60) of policy advisors in the field of

### III.

post-secondary education across Canada and from the results of follow-up interviews with selected respondents.

I express gratitude to these respondents for their cooperation and advice.

In Section II, I summarize and critique some of the many alternatives which have been proposed for financing post-secondary education in Canada -- and conclude that no one of these is sufficiently comprehensive to deal with all the issues or to qualify as the method to be adopted.

Finally, in Section III, I propose a plan for selecting from among the various partial alternatives and for combining those selected into sets of more comprehensive policy positions.

The report offers no specific recommendations -- only a series of alternatives, analyses of the various alternatives, and frameworks for rational choice.

L. W. Downey



ALTERNATIVE POLICIES AND STRATEGIES  
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ALTERNATIVE POLICIES AND STRATEGIES  
IN  
THE FINANCING OF POST-SECONDARY EDUCATION

I.

SOME FRAMEWORKS FOR POLICY CHOICE

What alternatives are open to those who set policy with respect to the financing of post-secondary education? And how are choices among these alternatives to be wisely made?

The frameworks presented here -- first, a Conceptual Framework; and second, a Socio-Political Framework -- are offered as tools for dealing with these two questions. They are intended to serve as conceptual aids both in the identification of alternatives and in the process of weighing advantages and disadvantages and arriving at best choices.

1. A Conceptual Framework

Policy and decision-making in post-secondary education involves three complex and interrelated sets of issues:

- i. Opportunity Issues -- what kinds of educational services or opportunities ought to be provided for whom.
- ii. Cost-Sharing Issues -- who (the client or society, the federal government or the provincial government) ought to bear what proportion of the burden of cost of post-secondary education.
- iii. Financing Issues -- how each party in the cost-sharing plan might best finance his share of the investment.



In each of these issue areas, a number of important questions must be addressed.

# 1. Opportunity Issues

It has been predicted that enrolments in post-secondary educational institutions in Canada will have increased from 372,000 in 1968-69 to 1,130,000 by 1980-81 -- an increase of something like 300 percent in slightly more than a decade.

It must be noted, however, that these projections are based upon a "social demand" policy of post-secondary educational opportunity. According to this policy, some appropriate opportunity in post-secondary education (a space in a university, a college, or an institute) is to be provided, virtually as a right, for any individual who expects or demands such an opportunity.

Now, if one accepts this opportunity-upon-demand policy, and if one assumes that participation in higher education will be viewed in the future as it has been in the past, as the best means available to the individual to improve his lot in the world, then it is probably reasonable to expect the explosions in post-secondary enrolments which have been predicted.

But this could all change -- either by accident or by design.

The possibility of accidental change is not at all unreasonable; a sharp shift in the values ascribed to higher education could upset predictions significantly in a social demand system.

Also, society could deliberately adopt alternatives to the social



demand policy. Some of these may not seem particularly palatable, in light of prevailing values, but they must be considered, nevertheless, as conceivable alternatives.

In the direction of limiting the response of the post-secondary system to public demand, one could conceive of at least two alternatives:

1. Imposing controls or limits upon opportunity. This policy might take such forms as: limiting university enrolments through admission requirements to a smaller percentage of the age group; turning universities into senior and graduate institutions and shifting freshman and junior enrolments to colleges; providing an additional year, for sortation purposes, in the high school program; and so on.
2. Introducing a rigorous system of planning into the post-secondary system so that educational policies might be constantly in tune with such factors as: manpower needs, rates of return from investments, ability to pay, competing social needs, and so on.

One could also, of course, conceive of policies which would broaden, rather than limit, the scope of the opportunities provided for post-secondary youth. For example:

3. The concept of opportunity could be expanded to include any and all enterprises which might aid a young person "to get a start in life" -- not only through university, college, or technical education, but also through a host of other activities, alternatives to post-secondary education such as travel, explorations in business, experiences in the arts, and so on.

In summary, then the first and most basic policy choice to be made has to do with the scope and depth of the opportunity to be provided -- and for whom. The alternatives might be conceived in the following way.



*Type 1 - Policy Choice*

*ON THE SCOPE AND LIMITS OF OPPORTUNITY*

*Alternative #1: Career Opportunities Unlimited.*

*To select this alternative is to assume that every individual who reaches the age of majority is entitled to an assist from society to "get started in life" -- not only via the post-secondary education route.*

*Alternative #2: Educational Opportunities Unlimited.*

*To select this alternative is to assume a continuation and expansion of the social demand theory of post-secondary education: an educational opportunity for everyone who wants or demands it.*

*Alternative #3: Limited Educational Opportunities.*

*To select this alternative is to assume that there are limits to society's willingness and ability to support programs of post-secondary education. Selectivity of various kinds is imposed to control expansion.*

*Alternative #4: Planned Educational Opportunities.*

*To select this alternative is to assume that educational opportunity should expand only in response to real needs and only for individuals who can best qualify -- and, furthermore, that the expansion should be carefully planned and monitored.*

2. Cost-Sharing Issues

The next set of issues has to do with the manner in which the burden of cost is to be distributed -- between the individual and society, between the public and the private sectors, and among the various levels of government.



In most Canadian universities and colleges, students are required to pay some fees. In some instances, student fees cover close to 50 percent of operating costs; in others they cover as little as 10 percent. For the whole Canadian post-secondary system, student fees account for approximately 20-25 percent of the operating costs of post-secondary institutions.

If one adds to these direct fee costs, the costs of foregone earnings, student contributions to the total costs of post-secondary education increase to about 40-50 percent.

The question is: what proportion of the cost of post-secondary education should the client (and/or his parent) bear and what proportion should society bear?

It has been estimated that investments in education have accounted for something between 25 and 40 percent of this country's increases in productivity in recent years. This observation is impressive -- and is used by many analysts as a good and sufficient reason for society to bear the full burden of the costs of all education.

In recent years there have been, for example, proposals that universities and colleges reduce or abolish tuition fees and that university students be paid allowances while attending university to compensate for foregone earnings.

It has been demonstrated, however, that the redistributive effects of reducing or abolishing fees are, in fact, negative. Fee reduction tends to subsidize the "haves", not the "have nots."



It has been suggested, although the evidence is inconclusive, that individual benefits may be assumed to be roughly equal to social benefits -- to the one, increased life-time earnings and to the other, increased productivity.

It must be remembered too that post-secondary education is not a "pure public good;" it is available to citizens in unequal quantities. Hence, one must question the justice of any proposal that society assume responsibility for that portion of the investment which yields returns to the individual.

Finally, it must be noted that all returns from education, to the individual and to society, are not of an economic nature. Education enriches the lives of individuals as it enriches society.

So who is the greater beneficiary, the individual or society? And in what proportion?

Having made that decision, one must further ask: Which society? Which level of government?

Apart from rather modest amounts of non-government support which educational institutions receive from time to time, the costs of post-secondary education (other than those borne by the student) must be shared by local, provincial and federal governments.

In Canada, the question of which levels of government should bear which costs and how the total burden should be shared among the various levels of government is seriously complicated by constitutional arrangements, taxing powers and sources of revenue, provincial and federal goals, and so on.



[The property tax is the chief source of revenue of local governments. It is generally assumed that, in most parts of the country, the provision of elementary and secondary education services is already straining the limits of the property tax as a source of educational revenue. Hence, except in some cases, where the two-year college is viewed, in part, as a community endeavor, local governments are not seen as partners in sharing the costs of post-secondary education.]

So the bulk of the burden inevitably falls on the federal and provincial governments.]

The question of how the costs should be shared by the two levels of government is, in many respects, academic -- inasmuch as it is the peoples' money that is spent by both.

It must be noted, however, that the provinces are not equally endowed with wealth and resources. Hence, they are not equally able to support post-secondary education. The senior government, therefore, may have a responsibility to equalize opportunity and burden by redistributing resources, unequally, to the provinces.

Also, as one considers the way in which costs are shared between the two levels of government, one must inevitably consider how cost-sharing is (or might be) related to control in policy-making.

Finally, though virtually all post-secondary educational institutions in this country have, in recent years, become "public" (in the sense that they are supported by governments), the possibility of support from the private sector should not be overlooked. Post-secondary education has become "big business" -- so big that government



In any cost-sharing plan, funds are transferred from government to government, from government to institution and/or from government to individual. Precisely how these funds flow is an important matter of policy. Should federal contributions flow directly to institutions or indirectly through provincial governments? Should government contributions, from any level, flow directly to institutions or



indirectly through clients?

Clearly, if federal contributions flow directly to institutions, they have the effect of making institutions independent of provincial governments. If, however, they flow through provincial governments, they have the effect of maintaining for the province its paramount position in educational planning and policy-making.

Similarly, to the extent that all government contributions are made directly to institutions, they tend to strengthen the position of these institutions. To the extent that they flow to institutions through students, they tend to strengthen the position of the client -- by providing him with the weapon of consumer choice.

So the first question is: Which position is to be strengthened through flows of funds? That of the province? That of the institution? Or that of the client?

The second set of issues has to do with the ways in which governments finance their shares of the costs of post-secondary education. The simplest approach would be to draw upon general revenue -- in which case the support of education would become a burden on all taxpayers. Another approach would be to create a special fund to be maintained by special taxes on users -- in which case the support of education would become a burden only on the direct beneficiaries. Yet another approach would be to create a system of long-term financing -- in which case the burden of repayment would fall upon the generation which, presumably, received the benefits.

Finally, a third set of issues has to do with the ways in



which individuals might be provided with the investments required for post-secondary education. Most student assistance programs have three major components: (1) scholarships, which are available only to the academically talented; (2) bursaries, which are available to less talented students who can demonstrate economic need; and (3) repayable loans, which are available to those who can gain admission and demonstrate need.

These programs of student assistance have been criticized on two major bases. On the one hand, as demand for post-secondary education has increased, the burden of maintaining programs of student support has become extremely heavy on the taxpayer. On the other hand, although programs of student assistance have expanded greatly over the past few years, individuals in the lower socio-economic groups have not demonstrated a willingness to take advantage of them. In short, although the burden of student aid is very heavy, the goal of expanding accessibility is not being achieved. Other methods are being examined.

The various policy issues with respect to financing -- including flows of funds, sources of government revenue, and forms of student subsidy -- might be summarized as follows.

*Type 3 - Policy Choices*

*ON PATTERNS OF FINANCING*

*Issue #1: Flows of Funds*

*Government to government?  
Several governments to institutions?  
Governments to clients?*

*Issue #2: Sources of Government Revenue*

*General revenue?  
Taxes on clients?  
Revolving funds?  
Other?*

*Issue #3: Sources of Individual Revenue*

*Simple repayable loans?  
Advances on future earnings?  
Grants, scholarships, bursaries?  
Other?*

4. Summary

To conceive of all possible alternatives in the financing of post-secondary education, it is necessary to take account of three major issues: first, the scope and nature of the opportunities that are to be provided beyond the high school; second, the ways in which costs are to be apportioned between the client and society, between the public sector and the private sector, and between the provincial and the federal government; and third, the sources of revenue for the client and society and the ways in which revenues should flow among governments, institutions and individuals.



## 2. A Socio-Political Framework

Stager, in his study of the Evolution of Federal Participation in Post-Secondary Education, has traced the events, the shifting conditions, and the changing attitudes which have influenced federal-provincial arrangements in post-secondary education over the past few decades.

In this section of this report, an attempt is made to take stock of contemporary political postures and public attitudes toward inter-governmental relationships, particularly as these apply to post-secondary education.

Information and insights have been obtained from three major sources: (1) a review of the political debates which have taken place over the past few years regarding the roles of various governments in education; (2) responses to an opinionnaire which was administered to a small sample of persons (60) who might be considered policy advisors in the field of post-secondary education throughout Canada; and (3) a series of interviews with some of these same policy advisors and with certain other experts both in the field of post-secondary education and of inter-governmental relations.

The conceptual framework presented in the preceding section of this report, served, hopefully, to clarify and order the basic policy questions related to financing education. The examination, here, of political and cultural determinants is intended to provide another kind of perspective -- a concept of the sorts of policy choices which might be feasible or attractive in the Canadian socio-political context.

1. Political, Constitutional and Economic Considerations

The paramount consideration in policy matters affecting more than one level of government in Canada is the fact that Canada is a federation. A federation may be defined simply as a political unity, with a central government, which is formed out of a number of states, each of which retains control of its internal affairs.

Typically, government in a federation is conducted within a constitutional framework which prescribes duties and responsibilities. Ideally, the division of powers and responsibilities is matched to a division of revenue in such a way as to provide for fiscal autonomy. Usually, an independent tribunal is created to adjudicate disputes.

Constitutions, however, tend to remain fixed -- while societies change and governmental functions shift correspondingly. That is why jurisdictional lines periodically become blurred or dysfunctional and disputes develop among the members of the federation.

In Canada, education is, constitutionally, a provincial matter. A century ago, this arrangement seemed satisfactory enough. But in recent times, a whole host of conditions and events have caused the federal authority to become interested in education: wars have created needs for certain kinds of manpower; international competitions in science and technology have created needs for other kinds of manpower; and industrial progress has created needs for still other kinds of manpower. Furthermore, depressions, unemployment, underdeveloped resources, etc., have been seen by the federal authority as good and sufficient reason for involvement in matters related to education. As a result,



education has recently become one of the contentious issues in Canadian federalism.

Specifically, the federal government's involvement in post-secondary education has been justified on the following grounds:

1. An alleged need to "safeguard the national interest."
2. A desire to reduce regional inequalities.
3. An inability on the part of the provinces to support certain services under existing tax arrangements.

But the legality of this involvement has been hotly debated by politicians and constitutional lawyers. Prime Minister St. Laurent, for example, claimed in 1956:

*The federal government has the absolute right to impose indirect taxation for any purpose, and the right to impose direct taxation provided that it is destined to increase Canada's Consolidated Revenue Fund. With the approval of Parliament, it can then use this money to make gifts or grants-in-aid to individuals, institutions, provincial governments, or even foreign governments. This is a royal prerogative which our constitution does not limit in any way.<sup>1</sup>*

Pierre E. Trudeau, before becoming Prime Minister, challenged this point of view, on legal grounds, when he argued:

*If there is federal legislation to grant taxation money for provincial purposes, this legislation is illegal for the excellent reason that the federal government cannot by law, have money in its coffers which it then claims should be used for provincial purposes.<sup>2</sup>*

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<sup>1</sup>Louis St. Laurent, speech to the University of Sherbrooke, October 17, 1956, quoted in P.E. Trudeau, Federalism and the French Canadians (Toronto: MacMillan, 1968) p. 85.

<sup>2</sup>Pierre E. Trudeau, Federalism and the French Canadians (Toronto: MacMillan, 1968) p. 87. (Comments originally written in 1957)

But on another occasion he reflected realistically upon the state of federalism as follows:

*The story of Canadian federalism is one of constant inter-governmental exchange and cooperation. It is also a story in part of sometimes subtle, sometimes brazen, and usually tolerated encroachments of one government upon the jurisdiction of another . . . For example, the federal government has used grants-in-aid to enter resolutely into areas of technical and university education.<sup>3</sup>*

Prime Minister Lester B. Pearson, in 1966, justified the posture of his government as follows:

*Education is, under our constitution, a matter of provincial jurisdiction. The federal government does not dispute this or wish in any way to do so. At the same time, education is obviously a matter of profound importance to the economic and social growth of the country as a whole. This is particularly true of higher education. Apart altogether from the general interest in fostering equality of opportunity for Canadians, wherever they may live or wherever they may be brought up, the federal government has specific and particular responsibilities to which higher education is relevant. While education itself is provincial, the federal government accepts primary responsibility for employment and economic activity generally in the country. We recognize that provincial governments share concern in these matters and pursue these common aims in the conduct of their own affairs. It is, however, the responsibility of the federal government to devise and apply national policies and measures that are necessary to ensure that the economy of Canada will continue to expand and will become increasingly productive, in order that there may be full employment and an increased level of prosperity for all our citizens. The preparation of our young people for productive participation in the labour force of the country is a matter of vital concern to all*

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<sup>3</sup>Pierre E. Trudeau, "The Practice and Theory of Federalism," Social Purpose for Canada, Michael Oliver (ed) (Toronto: University of Toronto Press, 1961) p. 382.



*Canadians. We have also to keep in mind that young people of a particular province do not necessarily receive their education and training in their home province, and that people, after graduation, do not necessarily live out their lives and take up employment in the province where they received their education. These facts affect the burden of costs that falls upon the different provinces.*<sup>4</sup>

A typical provincial reaction is expressed in the following statement by Premier Daniel Johnson of Quebec:

*. . . that system which takes the form of a transfer of certain tax points is surely a more acceptable way of eliminating the confusion created by past formulas and indicates in that respect that the federal government is coming back to the spirit of the Constitution . . . But the Federal Government knows, as we do, that Quebec cannot accept (the more profitable 50% - of operating costs option), as it implies a right of interfering with the spending process and therefore the administration of post-secondary educational institutions.*<sup>5</sup>

And in the following arguments advanced by Premier John Robarts of Ontario:

*Ontario does not agree that federal participation in the field of higher education requires its direct involvement with the universities in a system of grants. Direct federal grants not only complicate but often contradict the long-term arrangements and priorities of our Department of University Affairs in dealing with our universities. In Ontario, we would prefer to distribute public funds among our universities on the basis of our own assessments and criteria, rather than have part of such assistance paid directly to our universities on the basis of a*

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<sup>4</sup>Canada, Federal-Provincial Conference, Ottawa, October 24-28 1966, Privy Council Office (Ottawa: Queen's Printer, 1968)

<sup>5</sup>Ibid, p. 24.

*national formula.*<sup>6</sup>

But J. A. Corry, writing in University Affairs, December, 1966 puts the other case vigorously as follows:

*In the competition of nations for power, place and welfare, the prizes are going to the countries that bet on education. Can the body responsible for the peace, order and good government of Canada blandly assume that ten provincial governments, each thinking for itself and about its own needs, will produce all the highly educated skills that are needed? . . . If there are national needs and objectives that require concerted educational policy in two, several, or all provinces, no provincial legislature is by itself competent in the matter, and judicial interpretation on other comparable aspects of the distribution of powers under the B.N.A. Act makes it clear that Parliament is competent, under 'the peace order and good government' clause.<sup>7</sup>*

The continuing controversy over who has the right to do what in our federal system led Newsweek to refer to Canada, recently as much less a single nation than a quarrelsome collection of provinces -- "each paying little more than grudging homage to the federal government in Ottawa."

. . . . .

Grant programs, formulae for transferring resources from one jurisdiction to another, are common features of federations.

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<sup>6</sup>Statement of Ontario to the Committee, presented by the Hon. John P. Robarts, Premier, in Canada, Federal-Provincial Tax Structure Committee, (Ottawa, Queen's Printer, 1966) p. 42.

<sup>7</sup>J. A. Corry, "Higher Education in Federal-Provincial Relations." University Affairs, Vol. 8, No. 2, December 1966, p. 3.



Grants from senior to junior levels of government are justified on several grounds:

1. Local purchase of "national goods." (Grants are used to encourage junior governments to purchase goods or services deemed to be of national importance.)
2. The promotion of "equity." (Grants are used to redistribute wealth and, thereby, equalize effort and opportunity throughout the federation.)
3. The redress of imbalances between responsibilities and resources. (When a provincial government's constitutional responsibilities are greater than its taxing capabilities, grants from the federal government may be used to correct the situation.)

Grants from federal governments to provincial governments may be either conditional or unconditional. In the case of conditional grants, the motive is to encourage the provincial government to increase its investment in some particular service (education) and the fact that the effect of the service "spills over" into other sectors of the federation is used as justification for this type of aid. In the case of unconditional grants, the motive is simply to broaden the economic base of the recipient province and, allegedly, to correct some of the imbalances and economic distortions that result from conditional grants and from the use of non-benefit taxes for the purchase of non-private goods (goods available in unequal quantities to citizens.)

Grants may also be either equalizing or non-equalizing. Equalizing grants are used to equalize opportunity (access to higher education) and to equalize the efforts required by the various regions of the federation to achieve an optimum level of opportunity. When such redistribution does not take place, grants are said to be non-equalizing --

or even disequalizing.

Finally, grants may be either fixed or variable. Fixed grants are those which allocate a specific amount of money per stated unit; variable grants (or matching grants) are based upon the level of provincial spending. Matching grants are used as incentives and as such are criticized as both disequalizing and disruptive to provincial priorities.

Prime Minister Trudeau, in his working paper on the constitution, Federal-Provincial Grants and the Spending Power of Parliament, tentatively advanced three basic principles of federal support:

1. *The constitutional power of the Parliament of Canada to contribute toward the public services and programmes of provincial governments should be provided for explicitly in the constitution;*
2. *The power of Parliament to make unconditional grants to provincial governments for the purpose of supporting their programmes and public services should be unrestricted.*
3. *The power of Parliament to make general conditional grants in respect of federal-provincial programmes which are acknowledged to be within exclusive provincial jurisdiction should be based upon two requirements: first, a broad national consensus in favour of any proposed programme should be demonstrated to exist before Parliament exercises its power; and secondly, the decision of a provincial legislature to exercise its constitutional right not to participate in any programme, even given a national consensus, should not result in a fiscal penalty being imposed upon the people of the province.<sup>8</sup>*

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<sup>8</sup> Pierre E. Trudeau, Federal-Provincial Grants and the Spending Power of Parliament. Government of Canada, Working Paper on the Constitution (Ottawa: Queen's Printer, 1969) p. 36.



## 2. Attitudes Toward Post-Secondary Education

Respondents to our opinionnaire, were asked to adopt, reject, or modify a series of positions with respect to post-secondary education. The following statements, positions, or articles of faith reflect the views of the majority of the respondents.

I. Education is potentially one of the most effective instruments available for the improvement of the human condition -- economically, culturally, socially, emotionally, and morally. Furthermore, education is potentially, one of the most effective instruments available for keeping a society or nation abreast of the scientific, technological, and other advancements that are now sweeping the world.

*As a matter of public policy, therefore, the widest possible opportunities for education should be made available to the largest possible number of our citizens.*

II. Post-Secondary education has many specific roles and functions; the creation of knowledge, the storage of knowledge, the dissemination of knowledge, the preparation of manpower, the cultivation of citizenship and inter-cultural understanding, etc.

*Any post-secondary educational system or institution has specific responsibilities to the community, to the province, and to the nation in which it is located as well as to the world community of scholarship of which it is a part.*

III. Before any post-secondary education system can claim

maturity (i.e., provide high quality opportunities for all clients) it must provide for diversity, differentiation, specialization, and for the development of distinctive institutional roles complementary to each other.

*Any educational system must, as a first requirement, have an economic and a population base adequate to support widely differentiated sub-systems and institutions.*

IV. Education is a continuous process; it begins at birth and extends (hopefully) throughout the life of the individual. And although the process may be viewed in phases or stages, and indeed may be so planned, each stage or phase must build deliberately upon the one which precedes it.

*The planning agency or jurisdiction in post-secondary education ought to be the same as, or closely related to the agency which plans elementary-secondary education.*

V. In Canada, the province is normally (and constitutionally) viewed as the "society" that shares with individuals the dividends which are realized from educational investments. However, appropriate goals for Canada may be something more than the sum total of the goals of the ten provinces.

*The whole country, as well as the provinces which make up that country, has an important stake in education.*

VI. Provincial educational jurisdictions have never been prepared to allow their "spill over benefits" simply to happen, as provisions are made to educate individuals; instead, provincial authorities have insisted that education plan, deliberately, for the attainment of



provincial as well as individual goals. Similarly, the federal authority should not be expected to assume that its goals will be met through the "spill-over" effects of provincial efforts; instead, it should be expected to have some voice in the educational affairs of the country.

*Educational planning, though primarily a provincial endeavor, ought to involve the federal authority.*

VII. Educational opportunity ought to be distributed more or less equally across the nation. But wealth, the ability to pay for opportunity, is not distributed equally across the nation.

*The senior government ought to be responsible (through taxation and the redistribution of resources) for equalizing the effort required to provide equal post-secondary educational opportunities for all regions.*

VIII. It must be remembered, however, that education is both an investment in the individual and an investment in society -- and that both the individual and the society reap dividends.

*The investment (effort) should also be shared by the individual and society (in realistic proportions) -- but alternative sources of repayable investments ought to be provided for the individual who lacks the necessary resources.*

### 3. Attitudes Toward Intergovernmental Relationships

Our respondents were also asked to express their views on the following matters:

1. The federal-provincial political situation; the status of Canadian federalism; and the constitution.
2. The implications of economic disparities throughout the country.

### 3. Federal-provincial fiscal arrangements.

Their responses constitute what might be regarded as a set of political principles for the guidance of policy decisions in post-secondary education.

Constitutionally, education is a matter of provincial responsibility and jurisdiction. The province must be viewed, therefore, as the master planner of all forms and all levels of education within its jurisdiction. Hence, our respondents would contend:

PRINCIPLE #1 -- CONSTITUTIONAL JURISDICTION. IT IS IMPROPER AND UNCONSTITUTIONAL FOR ANY JURISDICTION OTHER THAN THE PROVINCE TO ENGAGE UNILATERALLY IN ACTIVITIES WHICH WOULD INTERFERE WITH THE EDUCATIONAL POLICIES AND PRIORITIES OF THAT PROVINCE.

But, as one proceeds from this rather basic principle to an analysis of certain other realities, one discovers that each of these realities suggests some quite fundamental modification of the basic principle.

Today, unlike a hundred years ago when the constitution was formed, all the provinces of Canada face responsibilities in education (and other social services) which, in many cases, exceed their financial resources. Changing conditions have led to serious imbalances between constitutionally-designated responsibilities and allocated resources. Hence, our respondents would further contend:

PRINCIPLE #2 -- RESOURCES EQUAL TO RESPONSIBILITY  
IN A FEDERATION, WHENEVER AN IMBALANCE DEVELOPS BETWEEN THE RESPONSIBILITIES AND THE RESOURCES OF A JURISDICTION



*STEPS MUST BE TAKEN TO RESTORE THE BALANCE --  
ULTIMATELY PERHAPS THROUGH CONSTITUTIONAL REFORM,  
BUT IMMEDIATELY THROUGH TRANSFERS OF RESOURCES.*

It must also be noted, however, that Canada has developed and continues to develop differentially, from region to region. As a consequence, serious socio-economic disparities have evolved. These militate against our belief that citizens should be afforded more or less equal opportunities, through the provision of various social services, and that all citizens should put forth approximately equal efforts for the provision of these services. Hence, it is argued:

PRINCIPLE #3 -- EQUALIZATION OF EFFORT AND  
OPPORTUNITY. *IN A FEDERATION, THE FEDERAL GOVERNMENT,  
AS THE ONE AUTHORITY WITH TAXING AND OTHER POWERS OVER  
THE ENTIRE COUNTRY, SHOULD ASSUME THE TASK OF COLLECTING  
ACCORDING TO ABILITY TO PAY, AND REDISTRIBUTING  
ACCORDING TO NEED, TO SUPPORT VARIOUS SOCIAL SERVICES  
-- INCLUDING POST-SECONDARY EDUCATION.*

These three principles (*CONSTITUTIONAL JURISDICTION; RESOURCES EQUAL TO RESPONSIBILITY; and EQUALIZATION OF OPPORTUNITY AND EFFORT*) are seen by our respondents as an appropriate basis for an agreement between the federal and provincial governments on the planning and financing of post-secondary education in Canada.

Principle #1 simply calls for an understanding that one jurisdiction must not interfere in the responsibilities of the other without consultation and approval. Principle #2 simply calls for an appropriate

transfer of taxes collected by the Federal Government back to the provinces. Principle #3 simply calls for the payment of equalizing grants to those provinces which are less affluent, in terms of income and acquired wealth.

But even if these basic principles were accepted, and the appropriate formulae developed, certain other issues would remain. For example, one might ask: is it safe to assume that the ten provinces, each acting independently in matters of education, could and would deal adequately with the needs, goals, and aspirations of the country as a whole? It remains to be seen whether or not the ten jurisdictions, acting cooperatively through the Council of Ministers of Education, can respond adequately to the challenge of country-wide goals and needs.

But, as many respondents pointed out, the same question could be asked about any proposed federal planning agency in education. And the same doubt could be expressed about its ability to meet the challenge. So the following principle is proposed:

PRINCIPLE #4 -- INTER-PROVINCIAL AND FEDERAL-  
PROVINCIAL CONSULTATION AND COLLABORATION. IN ANY  
COUNTRY, IT IS IMPORTANT THAT CONTINUOUS ATTENTION BE  
GIVEN TO THE TASK OF DETERMINING NEEDS AND SETTING  
SOCIAL GOALS AND PRIORITIES -- AND OF DELEGATING  
RESPONSIBILITY FOR THESE TO THE APPROPRIATE INSTITU-  
TIONS. IN A FEDERAL COUNTRY, SUCH AS CANADA, THIS  
TASK CAN BE BEST PERFORMED BY AN AGENCY WHICH IS  
REPRESENTATIVE OF ALL THE MEMBER GOVERNMENTS,  
PROVINCIAL AND FEDERAL.



To make this principle operative, it would be necessary for this agency (or agencies) to function on a continuous basis for the purposes of: (1) establishing country-wide educational goals; (2) considering proposed incentives to education by the federal authority; and (3) hearing requests from member provinces for federal assistance in innovative projects.

Finally, when one considers that it is not only the various levels of society but also the individual that reap the benefits of post-secondary education, one must ask: What portion of the cost of post-secondary education should be borne by the individual and/or his parents? In what form should he be assisted in bearing his share, and by what level of government? What restrictions, if any, is the state justified in imposing upon the student whom it aids in post-secondary education? How can the factor of student and graduate mobility be accounted for in repayment and/or cost-sharing schemes? And so on. In the most general of terms, our respondents answers to this set of questions might be summarized in the following principle:

PRINCIPLE #5 -- EQUITY BETWEEN COST AND BENEFIT.

1. *IN FAIRNESS TO SOCIETY AND TO THE INDIVIDUAL WHO DOES NOT AVAIL HIMSELF OF THE OPPORTUNITY FOR POST-SECONDARY EDUCATION, THE STUDENT SHOULD SHARE THE BURDEN OF HIS EDUCATIONAL INVESTMENT IN ROUGHLY THE SAME PROPORTION AS HE SHARES IN ITS RETURN. (HE SHOULD BE AIDED IN THIS, HOWEVER, THROUGH LOANS AGAINST FUTURE EARNINGS.)*
2. *SIMILARLY IN ALL FAIRNESS THE "STATE" WHICH SHARES IN*

THE RETURNS OUGHT TO BE THE "STATE" WHICH SHARES IN  
THE COST. (THIS MAY MEAN, ON OCCASION, FISCAL TRANS-  
FERS AMONG PROVINCES -- TO ACCOUNT FOR INTERPROVINCIAL  
MOBILITY OF GRADUATES. IT CERTAINLY MEANS SOME FORM  
OF FEDERAL-PROVINCIAL SHARING OF STUDENT ASSISTANCE.)



ALTERNATIVE POLICIES AND STRATEGIES  
IN  
THE FINANCING OF POST-SECONDARY EDUCATION

II.  
SOME ALTERNATIVES

To explore, in a systematic and comprehensive fashion, the alternatives for financing any public service, one must address a series of questions of public policy:

1. To what extent is the service a "public" good and to what extent is it "private?" Should efforts be made to make it more public? Or should alternative services be provided to compensate for its non-public nature?<sup>9</sup>
2. If the service is not a purely public good, how should its costs be shared between the direct beneficiary and society?
3. To what extent, and through what techniques, might reductions be achieved in the cost-to-effectiveness ratio of the system which delivers the service?
4. How might the relationship between cost and revenue be stabilized, to avoid unanticipated fluctuations in costs and attendant crises in finance?

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<sup>9</sup>A "pure public good" is defined simply as one which is available in equal amounts to all citizens. National defence is usually thought to be the "purest" public service.

5. How should (or might) costs be apportioned between the public and the private sectors? And among the various levels of government?

As these questions are applied, specifically, to post-secondary education, they become extremely complex. Post-secondary education is not a pure public good; many citizens are denied access to it. How then might a "just society" provide compensation to those who are denied the service?

Neither, however, is post-secondary education a purely private good; the whole of society benefits from it, at least indirectly. So how and to what extent should the service be subsidized by society?

Also, in recent years, the costs of post-secondary education have escalated at a rate which, in the view of some observers, foreshadows a time when the financial burden may be too great for society to bear. So one must ask: Can costs be stabilized without reducing the quality of the service? Can techniques be discovered for relating revenues to costs or products in such a way as to simplify the overall economy of the service?

These and other related issues have, today, become the basis of a renewed search for alternative methods of financing post-secondary education. A number of proposals have been advanced. Most of these, however, are fragments rather than fully-developed plans. Each addresses certain aspects of the problem but tends to ignore others; each, however, is worthy of examination.

The alternatives to be examined here will be ordered, insofar

as possible, along the lines of questions posed above:

1. Alternative strategies for expanding or equalizing opportunity.
2. Alternative techniques for reducing the cost/effectiveness ratio.
3. Alternative methods of maintaining adequate flows of revenue.
4. Alternative methods of inter-governmental cost sharing.

It must be recognized, of course, that some alternatives address only certain parts of various policy questions; others address more than one question. The ordering system, therefore, is not at all conceptually tidy.

1. Alternative Strategies for Expanding (Equalizing) Opportunity

Prior to World War II, post-secondary education was a privilege enjoyed by a very small economic, social, and intellectual elite. But after the war, higher education came to be seen not only as an opportunity and a reward befitting the country's returning veterans, but also as a means for maintaining Canada's position in the competitive world of nations.

So by the mid-Forties, higher education began to shed its elitist character. Since then, the trend has continued, as more and more high school graduates have aspired to higher education, and as more and more opportunities have become available through reduced tuition fees, scholarships, bursaries, and loans.

Yet, it has been demonstrated that, in spite of efforts to increase accessibility, discrimination still exists. For apparently, such incentives as have been created have proven to be incentives only to certain segments of society and not at all to others. Specifically, it has



been found that students from the lower economic strata of our society are not disposed to incur the indebtedness that most forms of assistance involve.<sup>10</sup>

A variety of financing schemes have been proposed to increase accessibility, particularly for lower income groups -- while at the same time maintaining reasonable limits upon the overall costs of post-secondary education. Indeed, in most of these schemes, a secondary (if not primary) purpose is to shift a larger share of the costs to the beneficiary -- through the introduction of alternative modes of repayment.

#### ALTERNATIVE #1.1 A GRANT-LOAN-SCHOLARSHIP INCENTIVE PROGRAM

This plan, essentially the one in operation in Great Britain, has three major objectives: (1) to increase accessibility to post-secondary education; (2) to redistribute income to lower income groups and costs to higher income groups; and (3) to encourage and reward scholarship. The plan includes:<sup>11</sup>

1. A grant scheme based upon a relationship between family income and a presumed rate of exclusion from participation in post-secondary education. If one were to assume, for example, that in the case of families whose incomes are in excess of \$25,000, the rate of exclusion would be zero and that in the case of families whose incomes are less than \$4,000, the rate of exclusion would be 100 percent, then one could conceive of a

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<sup>10</sup>See Robert M. Pike, Who Doesn't Get To University --- And Why. (Ottawa: Association of Universities and Colleges of Canada, 1970)

<sup>11</sup>This brief description of the plan is summarized from S. Peitchinis "Financing Post-Secondary Education," Working Paper Only, 1971.

scale of grants as follows:

Family Income	Rate of Exclusion	Student Grant
\$25,000 and over	0%	\$ 0
20,000 - 25,000	5	100
18,000 - 20,000	10	200
16,000 - 18,000	25	500
14,000 - 16,000	30	600
12,000 - 14,000	40	800
10,000 - 12,000	50	1,000
8,000 - 10,000	75	1,500
6,000 - 8,000	85	1,700
5,000 - 6,000	95	1,900
4,000 and under	100	2,000

NOTE: The actual amount of the grant would change from time to time with changing economic conditions. Presumably, however, the grant at the 100% exclusion rate would be sufficient to cover all costs - including fees, books, supplies and subsistence.

2. A loan scheme designed to supplement the grants of individuals who might not qualify for the full amount of grant required -- as, for example, in the case of the student who wished to be independent of parental support.

3. A scholarship scheme designed to encourage and reward academic talent. Presumably, the academic scholarship would equal the full grant.

*Critique:* This proposal has as its major goal the achievement of universal accessibility to post-secondary education. From this point of view and from the perspective of equity, it is unassailable.

But, inevitably, as accessibility becomes more universal, costs will become correspondingly more burdensome. There simply is no magic

through which services can be provided for more people, at a reduction in costs -- except, perhaps, through increasing efficiency at the institutional level. (A probability to be discussed later.)

It is impossible to estimate the actual costs of this proposed scheme -- for the simple reason that, if it works, if the objective of increased accessibility is achieved, the whole situation will have changed in ways which are largely unpredictable. True, subsidies will have shifted from the "haves" to the "have-nots." The "haves" will have assumed a large measure of the responsibility for the costs of their own education. But how all of this will influence demand can be only a matter of conjecture.

The proposal that grants be tied to family income warrants careful scrutiny. With the reduction of the age of majority to 18 or 19, the age at which many young people make the decision to enter post-secondary education, the assumption that the family should bear the costs of post-secondary education may be open to question. Also, one must wonder how family income is to be determined. Should the grant be based upon gross income or net income? Finally, one must ask: how might the scale or the family income figure be adjusted to take account of a second or a third member of a family attending university? Or to take account of the costs of recurrent adult education which is likely to become a way of life in the years to come.

In summary, this proposal must be seen largely as an incentive program. It provides for income redistribution as an incentive for the poor to enter post-secondary education; it provides for loans as



*incentives for persons wishing to be independent of family to proceed, nevertheless, to higher levels of education; and it provides for scholarships as incentives for academically talented individuals to develop their talents to the fullest.*

#### ALTERNATIVE #1.2 CONTINGENT REPAYMENT LOANS<sup>12</sup>

This proposal, essentially an extension of the existing student assistance plan, has three purposes: (1) to shift more of the costs of post-secondary education to the students; (2) to provide adequate investment capital for individuals wishing to proceed to higher education; and (3) to make use of the income tax structure for the recovery of loans.

Under this scheme, any student able to demonstrate need, would be authorized to borrow from an approved private lender. After graduation, he would repay the loan as a surcharge on his income tax. The federal government would simply act as an intermediary -- initially, as the guarantor of the loan and, ultimately, as the collection and repayment agency.

The proposed terms of the funding scheme have been summarized as follows:

1. *Public financial assistance to the students will be in the form of interest-bearing loans.*
2. *The student is responsible for paying back the total amount of his borrowing plus the cumulative annual interest. Repayment would begin at the end of the first year in which he pays income taxes.*

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<sup>12</sup>From "A Summary of a Proposal for a New Program of Financial Assistance to Students" by the Sub-Committee on New Approaches to Student Assistance to the Council of Ministers of Education, Canada, 1970. (Mimeo)

3. *The amount of the annual repayment will be determined by the recipient's taxable income, as the closest measure available of the actual economic benefit which an individual receives from his education. If he enjoys a high income after completing his formal education, he can be expected to fully repay his debt with interest. If he does not receive a high income after graduation, the balance should be forgiven after a reasonable period of time. It is at this point only that the aspect of a grant comes into play.*
4. *Annual repayments are concluded in two ways: when the total debt, including interest is fully paid, or after the payment of 15 annual instalments.*
5. *Loans will bear interest from the date of issue at prevailing rates.*
6. *Loans will be granted to cover all approved educational costs. This aspect must remain flexible but under the present structure living costs must be incorporated.*
7. *Every applicant must satisfy the criteria of a needs assessment. This plan is designed to assist only those who are not in a position to obtain funds through private sources.*
8. *All post-secondary students, both full-time and part-time, will be eligible to apply for assistance under this program.*
9. *It is hoped the program will be financed by and through the federal government.*
10. *The lenders will be repaid directly by the government. If the government is able to take advantage of a preferred rate of interest, the balance would be used to assist with the deficit incurred on behalf of those whose income is not sufficient to warrant total repayment.*
11. *The net deficit incurred by the government in a given year should be considered as part of the support given to post-secondary education.*
12. *It is assumed the machinery established for the Canada Student Loans Plan may be adapted to the administration of this program.<sup>13</sup>*

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<sup>13</sup>University Affairs, Volume 11, No. 8, October, 1970.

Critique: This Contingent Repayment Loan Plan is based upon the assumption that the costs of post-secondary education ought to be borne, in large measure, by the individuals whose earning powers are increased by it. Hence, the plan calls for full repayment of amounts borrowed by graduates whose earnings are high, but little or no repayment by those whose earnings are low.

In this respect, the plan could prove to be inequitable. Some programs, general arts for example, are largely consumatory in nature; they do not increase earning power to the same extent as do professional programs. The plan, therefore, would subsidize those students who enter programs with low rates of return and penalize those who enter programs with high rates of return. Indeed, the extreme in abuse of the system might be its encouragement of the so-called "professional student."

The proposed "needs assessment" may also prove to be a thorny issue. With the lowering of the age of majority to 18 or 19, most individuals entering higher education will be legally independent. And if so-called private resources are to include parental contributions, then very likely most students will declare themselves independent -- in which case, the majority will be quite able to pass this means test. Costs would then escalate dramatically.

Presumably, the proposal to use prevailing interest rates is intended as a deterrent against individuals using loans for non-educational investment purposes. But should rates be uniform? If rates were less a function of money market conditions and more a function of the supply of and demand for graduates, they could become an effective tool



*for the implementation of long-range plans.*

*Finally, it should be noted that the proposed financing scheme shifts the brunt of the cost burden to the individual -- but through the federal government. Under this scheme, the province's role would very likely decline to the point where it would become powerless to control and plan developments in post-secondary education.*

### ALTERNATIVE #1.3 THE VOUCHER SYSTEM

The "Voucher System"<sup>14</sup> is simply a plan in which the state issues to the individual a voucher which he, in turn, may use to purchase educational service at the institution of his choice. The scheme is calculated to increase the power of the consumer, through the exercise of choice, and to decrease the power of the system, by making it compete for customers.

As it was initially conceived by Milton Friedman, the voucher plan was thought to be more appropriate to elementary and secondary education than to post-secondary. Indeed, Friedman argued that, since vocational and professional education do not produce the kinds of neighborhood effects that general education does, their costs ought to be borne by the beneficiary -- not by society. (In this argument, however, he has met strong opposition.)

In any case, most proponents of the voucher system in post-secondary education see the scheme as a tidy way to provide students with

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<sup>14</sup>Center for the Study of Public Policy, Cambridge, Ma.  
Education Vouchers, A Report to the U.S. Office of Economic Opportunity.  
(Cambridge: The Center, 1970)

investment capital and complete freedom to invest this capital at the institution of their choice. Whether or not some or all of the vouchers should be charged against future earnings, is another issue.

Pauline Jewett, writing in MacLean's Magazine, in January, 1969 proposed that the federal government take over the whole of the costs of post-secondary education and that it do so by making grants directly to students -- rather than to provincial governments, as is now the case, or to institutions which was the case prior to 1966. She makes the interesting point that a grant of about \$2,000 per student would " . . . about equal what the federal government now makes available to the provinces, for all education after grade 12, through fiscal transfers and adjustment payments."<sup>15</sup>

Critique: First, it must be recognized that Jewett's proposal is primarily a political one. Instead of subsidizing students indirectly through payments to provincial governments and institutions, the federal government is advised to subsidize students directly -- and take full credit for the subsidy.

There are, however, certain problems which might be anticipated in the implementation of such a system.

The proposal rests upon an assumption that the proportion of social benefit to be derived from post-secondary education is sufficiently great to warrant a decrease in private investment. It could be argued

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<sup>15</sup>Pauline Jewett, "The Provinces are hushing it up, but Ottawa still helps pay for higher education. Here's why Ottawa should take it all over. And how . . ." MacLean's Magazine. January 1969. p. 8

that the problem of private benefit is not a serious one in any case since the marginal increases in income which may be a function of increased post-secondary education will be taxed at progressively higher rates. Any quantitative resolution of the issue of private versus social benefit of post-secondary education must await refinements in the techniques of measuring social benefit. Even then one will face the problem of evaluating non-monetary returns. Hence, the principle proposed by Jewett may in fact be as rational as the more complex alternatives which rely heavily on quantitative assessments of costs and benefits.

A second potential problem area is that of social equity. The costs of higher education to the individual include: (1) fees, (2) subsistence, and (3) foregone earnings. The total costs include these three plus the social cost -- which is the difference between operating costs per student and the fee.

Consider a specific example of actual cost distribution:

Social Costs:	grants	\$ 2,600
Private Costs:	fees	450
	subsistence	2,000
	foregone income	3,000
		<hr/>
		\$ 8,050
		<hr/>

Now assume a standard grant of \$2,000 to each student from the federal government.

Since well over half the cost (\$5,450) would be payable by the individual, lower income groups would be discouraged from seeking admission. Indeed, the grant would almost certainly have a negative effect



*in terms of income redistribution. The "haves" could and would accept the subsidy; the "have nots" could not and would not.*

*A third serious consideration with respect to this proposal is that it would in no way reduce the burden of costs on the taxpayer. On the contrary, unless the provinces and their various institutions chose to recoup lost federal revenues through increased fees to students (as Jewett suggests they might), provincial costs would virtually double.*

*Finally, perhaps one of the greatest problems in this proposal is its lack of provision for control. Presumably, the allocation of resources for operating purposes would be fixed by the province. Growth rates fixed by provinces, therefore, would have direct implications for the costs to be borne by the federal government. Neither would find it necessary to consult with the other; political as well as economic problems would very likely develop.*

#### ALTERNATIVE #1.4 THE AGE OF MAJORITY OPPORTUNITY PLAN

Policy analysts are fond of pointing out that post-secondary education is not a pure public good; it is not available in equal amounts to all citizens. Some of these analysts argue therefore, that steps should be taken to make the service more of a public good than it now is -- by expanding the base of opportunity to the point where virtually everyone can proceed with some form of formal education beyond high school.

Others, on the contrary, contend that post-secondary education is not an appropriate service to extend to all citizens, inasmuch as many citizens are not equipped to take full advantage of it. They argue,

therefore, that in the interests of justice and reality, alternative services or opportunities ought to be provided for individuals who are unwilling or unable to pursue formal post-secondary programs. Indeed, it has been suggested that many of the students who are now in post-secondary institutions are there simply because there are no alternatives available -- not even work.

Hence, this proposal for opportunities which are alternatives to post-secondary education. These might take the form of non-formal educational experiences, of investment capital for small businesses, or of training opportunities which do not now qualify for government subsidies (Schools of Aviation, Art Colleges, Business Colleges, etc.)

In short, the proposal is that all individuals, when they reach the age of majority, ought to qualify for some sort of start-in-life, repayable investment plan -- whether they intend to proceed to post-secondary education or to some other line of endeavor.

*Critique:* The social arguments in favor of this kind of scheme are indeed convincing. Inequalities in opportunity are everywhere apparent in our society. And the evidence suggests that to subsidize post-secondary education is almost, inevitably, to subsidize those individuals who have, throughout life, fallen heir to the best in the way of opportunities of all kinds.

It can be argued, of course, that to subsidize higher education is merely to invest in the country's best brains -- and, hence, that the practice can be justified purely on the basis of anticipated social benefit.

*But when this kind of positive social benefit is weighed against the negative social benefit that results from failure to develop and encourage non-higher-education-bound human resources, the comparative benefits are not nearly so clear.*

*Indeed, on the bases both of equity and of the principle of the fullest development of all human resources, a convincing case can be made for a universal opportunity plan -- to accommodate those who require investments for education as well as those who require investments for other development purposes.*

*The question, of course, is: can our society afford such a plan?*

*It is impossible to predict how many young people would take advantage of the fund; hence, it is impossible to anticipate costs.*

*It might be assumed however: (1) that alternatives to post-secondary education might reduce the number of "unwilling students" who are now in post-secondary institutions; (2) that broadened career opportunities might reduce the need for compensatory social programs such as welfare; and (3) that increased opportunities for young people to enter the adult world might reduce the costly sorts of pre-adult alienation, which are now so prevalent in our society.*

*It should be noted, too, that the scheme is not without precedent. The Veterans' Rehabilitation Program, introduced in this country after World War II, was based upon a philosophy of "careers unlimited." Today, certain provinces give "starter grants" to young people wishing to buy their own homes.*



## 2. Alternative Strategies for Reducing the Cost-to-Effectiveness Ratio

Most institutions of higher learning, when they face the prospect of reduced grants, claim that only two alternatives are open to them: (1) to become more exclusive in their admission policies and thereby reduce the number of students; or (2) to become more mass-production oriented in their programs and thereby reduce the quality of their services.

The third alternative, an obvious though rarely mentioned one, is to explore ways and means of increasing the efficiency of the operation -- ways and means of maximizing returns while minimizing investments.

The proposals and suggestions to be examined here are based upon an assumption that the third alternative may well be a viable one.

### ALTERNATIVE #2.1 THE ALL-YEAR EDUCATIONAL INSTITUTION

Trimester and quarter plans for university and college operation have been advocated for decades. With some notable exceptions, however, these have been rejected in Canada -- largely on educational grounds.

But when one realizes that many of the great universities of the world have, in the interests of economy and efficiency, adopted some form of year-round operation, one must assume that the alternative has some merit.

From the point of view of the student, the major advantage claimed for the year-round operation is that he can complete a four-year program in two and two-thirds or three years (depending upon whether the

system is trimester or four quarter). This means that he enters the labor market a year or a year and one-third earlier than he would on a traditional program. Granted, the student does not have part-time earnings. But usually, wages for part-time undergraduates have been substantially lower than those for full-time graduates. Furthermore, the demand for part-time undergraduate workers has recently declined to the point where summer vacations do little more than glut the labor market.

From the point of view of the institution, the major advantage of year-round operation is the economy that results from increased use of plant and equipment. Though there is no net decrease in students and, hence, in overall instructional load, there is a decrease in enrolment per semester. There may be certain diseconomies associated with reductions in scale. But apart from these, the savings should approximate 30 percent of capital expenditures for plant and fixed equipment. (According to the Van Tu report, capital expenditures for universities and non-university post-secondary institutions will average about \$350 million per year for the next ten years. To save 30 percent of this would be an achievement!)

Critique: *It is difficult, indeed impossible, to assess the educational arguments for and against the year-round operation in post-secondary education. The debate involves a host of imponderables: time for student reflection; time for faculty research; concentrated versus interrupted patterns of instruction; and so on. All that one can say about such issues is that the evidence is inconclusive on both sides.*

*But as the years go by, as the pressure of cost increases, and as the counter-arguments fail to get substantiated, one cannot help but become just a trifle impatient with those academics who continue to support with vigor the slow and deliberate pace of the traditional academic world.*

*From an economic point of view, the case for the year-round operation is convincing. A plant and equipment which is used only two-thirds of the year is, unquestionably, uneconomic.*

*Finally, from a comparative point of view, it must be noted that many of the distinguished universities of the world (California, Chicago, Harvard) have adopted the year-round operation without any serious impairment to their reputations.*

## ALTERNATIVE #2.2 SHIFTING UNDERGRADUATES TO COLLEGES

In 1969-70 the average operating costs of universities amounted to \$3,632 per full-time student; for the same year the average operating costs of non-university, post-secondary institutions amounted to \$1,487 per full-time student.

This evidence alone seems to provide an adequate base upon which to build an argument in favor of shifting a larger portion of the undergraduate population to colleges and encouraging universities to concentrate on senior and graduate instruction and research.

Add to these economic factors, however, certain educational considerations -- the growing impersonality of the university and its alleged decline as a teaching institution -- and the case for an expanded college system becomes convincing indeed.



Critique: To compare gross per student costs of university operations with gross per student costs of non-university post-secondary operations is misleading. Though few universities have yet developed rigorous methods of cost accounting, it has been estimated that the cost of educating a graduate student is approximately \$3,970 per year; that the cost of educating a senior undergraduate is \$2,665 per year; and the cost of educating a junior undergraduate is \$1,450 per year.<sup>16</sup>

Clearly, then, the economic effect of shifting a larger proportion of the undergraduate enrolment to the college would not be, as the cited figures seem to imply, to reduce the costs of undergraduate education by 40 percent. Indeed, per student instructional costs in non-university institutions are slightly higher than per-student instructional costs for the first two years of university (\$1,487 in the former \$1,450 in the latter). [It must be realized, of course, that costly technical programs have been included in the calculation of the average per-student costs in non-university institutions. Also, it should be remembered that much of the burden of junior undergraduate instruction in universities is borne by low cost graduate teaching assistants.] Nevertheless, the suggestion that the college seek to become a truly effective instructional institution seems a commendable one. Undoubtedly, teaching in the university has deteriorated at the undergraduate level. This is not surprising. The emphasis in the university has shifted to

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<sup>16</sup>Estimated from A.U.C.C. An Exploratory Cost Analysis of Some Canadian Universities. (Ottawa: The Association, 1970) Table 33, pp. 153-155.

research and graduate study. Undergraduate instruction has probably suffered correspondingly.

### ALTERNATIVE #2.3 REDUCING THE LENGTH OF PROFESSIONAL TRAINING

*In many professions . . . there is a tendency to . . . press for longer educational programmes in the belief that the length of the programme can be correlated with the prestige of the profession.<sup>17</sup>*

Over the past decade or two, during the period of rapid expansion in post-secondary education, there has been a tendency to lengthen the period of education for the professions. This trend has grown, in part, out of expanded bases of knowledge appropriate to the various professions. But it has also grown, in part, out of a misguided quest for prestige -- a kind of prestige that attends stiffened admission requirements and prolonged training.

It is suggested that many professions might consider reversing this trend and experimenting with reduced rather than extended periods of pre-professional training.

*One obvious way to shorten professional training would be to eliminate the general educational component as well as any aspects which cannot be identified as immediately relevant to the professional role. This temptation must be resisted because of the danger of producing technologists or dead-end specialists without potential for renewal, substitution, or vertical mobility.*

*A prolonged, uninterrupted educational experience may be too expensive for the student; it may blunt his motivation to learn; and it may result in his finding*

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<sup>17</sup>Towards Two Thousand, Report to the Committee of Presidents of Universities of Ontario by the Subcommittee on Research and Planning, January, 1971. p. VIII-9.

himself unable to adapt his skills readily to the circumstances of a working role. Furthermore, the rapid growth of knowledge and technique will render obsolete a substantial portion of the content of this educational experience within a few years of his entry into practice. It seems desirable to shorten the initial period of continuous professional education and to defer highly specialized training to a subsequent stage, or else to provide a base subsequently supplemented by a structured approach to continuing education in the subject areas of greatest relevance. It remains to be demonstrated whether professional service can be improved by giving professionals intermittent rather than continuous formal education.<sup>18</sup>

Critique: The idea of reducing pre-professional education is an intriguing one and one which is likely to gain favor among professionals.

Professional education in the social services -- teaching, nursing, social work -- is generally criticized by students as overly theoretical and largely irrelevant to professional practice. After some experience, of course, these same critics become supporters of professional education. The suggestion, therefore, that professional training be intermittent and interspersed with experience, is worthy of further exploration and experimentation.

There are many who believe that on-the-job education is the very best kind of training for a professional - inasmuch as it combines experience in the real world of practice with more meaningful learning of the fund of knowledge which is basic to the profession. Also, if obsolescence of knowledge is, in fact, the problem that it is claimed

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<sup>18</sup>Towards Two Thousand, Report to the Committee of Presidents of Universities of Ontario by the Subcommittee on Research and Planning, January, 1971, p. VIII-10.



*to be in the professions, intermittent education would seem to be more appropriate than increased pre-service education.*

#### ALTERNATIVE #2.4 REGIONAL PLANNING OF EDUCATIONAL SERVICES

It is generally assumed that as a society moves to expand the base of educational opportunity which it provides for its citizens, two things must happen: first, the overall system must become increasingly comprehensive; and second, the various sub-systems and institutions must become increasingly differentiated in function.<sup>19</sup>

It has been observed, however, that educational systems tend to develop in a rather perverse manner with respect to these two principles. Specifically, it has been noted that:

1. As new institutions are created to become members of an educational system, they tend, typically, not to differentiate themselves from long-standing members, but rather to seek acceptance and credibility by patterning themselves upon existing successful members.

2. As new special-purpose organizations are added to an educational system, the older multi-purpose organizations tend to view these newcomers as threats; they attempt to ascribe lower statuses to them; and they seek to control them and, through various means, to model them after themselves.

In short, educators who create new institutions tend to create carbon copies of institutions in which they have previously served. As a result, the principles of differentiation and specialization are ignored.

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<sup>19</sup>See L.W. Downey "Organizing A Province-Wide System of Education to Accommodate The Emerging Future" (Edmonton: The Commission on Educational Planning, 1970)

Needless and costly duplication of effort is the price paid by the taxpayer.

So it has been proposed that post-secondary institutions be denied some of the autonomy which they have traditionally enjoyed, that planning and coordinating agencies be created to prescribe differentiated roles for various institutions, and that resources be allocated on a rational basis with respect to the overall needs of a region rather than, as is allegedly the case, on the basis of faculty desires.

Such coordination and rationalization might be limited to a single province. Or, in the case of more sparsely populated areas, it might extend beyond provincial boundaries. (The Inter-Provincial Committee for University Rationalization which presently functions in the West is a good example of the latter.)

Provincial or regional planning could reduce duplication of effort. It could result in cooperative rather than competitive approaches to highly specialized areas of study. And it could result in a reduction in the cost-to-comprehensiveness ratio of post-secondary systems -- particularly in areas where the economic and population base is small.

*Critique: In our society there is a strong inclination to resist master planning and to avoid authoritative coordinating structures.*

*These inclinations are quite understandable (indeed, I find myself in considerable sympathy with both of them). Master planning and rigid adherence to the master plan have been viewed, traditionally, as the pursuits of controlled societies -- societies in which the goals of the state take precedence over the goals of the individual. Similarly, authoritative coordination and elaborate structures have been seen as the*

marks of centralized, bureaucratic societies -- societies in which freedom, along with the creativity and inventiveness that freedom allows, is sacrificed in the name of efficiency and an assumed superior competence in the central authority.

When the arguments against central planning and coordination are couched in terms such as these, they become disturbing. Indeed, planning and coordination become to some people downright undemocratic and un-Canadian, when viewed in this context.

But the issues are not that simple. Though the concept of a carefully planned society may indeed be repugnant, the chaos and diseconomies that result from lack of planning is equally undesirable. Though the notion of central coordination and control may also be unpalatable, the inefficiency, duplication of effort, and wastage of resources which result from lack of coordination are equally unacceptable.

Chaotic, unplanned, uncoordinated development is not the mark of a free society. On the contrary, real freedom implies an opportunity to make choices. And planning is nothing more than a rational approach to choice.

So the dilemma is posed: How much freedom and how much control? How much centralization and how much decentralization? How monolithic the structure and how pluralistic?

### 3. Alternative Methods of Maintaining Parity Between Costs and Revenues

One of the major difficulties in attempting to conceive of reasonable schemes for the financing of post-secondary education is to find devices for relating costs to benefits or investments to returns in such



a way as to ensure that some constant relationship is maintained between the two.

In periods of escalating demand, such as the one in which we now find ourselves, costs increase well in advance of returns -- both in terms of the individual and of society. So questions are asked: Why should today's taxpayer carry the burden of higher education when it will be tomorrow's citizen and tomorrow's industrial system which will reap the benefit? Why should all taxpayers share the burden when it will be a few of tomorrow's citizens who will reap the private benefits? And so on.

#### ALTERNATIVE #3.1 LINKING EDUCATIONAL GROWTH TO INDUSTRIAL GROWTH

In some fields of study, particularly at the post-graduate level, industrial support of post-secondary education is significant. It has been proposed that industry be encouraged to increase its level of support -- the assumption being that industry and the individual share, in large measure, the economic returns from higher education.

According to this proposed plan, industry would be encouraged to buy places for students in post-secondary institutions and pay for the students' support.

The incentives for doing so would be: (1) a guarantee of appropriately trained manpower; and (2) the right to treat the cost as operating costs which would be deductible from corporation tax.

*Critique: At first glance, this proposal seems appealing. But there are a number of subtle difficulties involved in it.*

1. The plan, essentially an ad hoc manpower approach to post-secondary financing, would very likely result in major shifts in enrollments -- inasmuch as support would be available only for programs that produce graduates who are attractive to industry.

2. Unless industry's contribution were increased beyond the prevailing level of society's contribution, the financial position of the government would remain unchanged. The tax exemption allowed to industry would amount to a decrease in government revenue approximately of the same order as government's contribution is under the existing system. The net effect would be to guarantee the training and the employment of individuals selected by industry, without any change in the government's financial position.

The problem of industrial conflicts with academic freedom (similar to those which have developed in the United States) would very likely emerge on campuses. Furthermore, there is every likelihood that those faculties and departments which attracted strong industrial support would become the large, powerful and prestigious units in universities. It has been for these reasons, that the concept of the university as a training institution for industry has fallen into disfavor.

4. Interregional disparities would inevitably follow upon increased industrial support. A tendency for industries to support institutions and students in those centres where industries are located would add to the problems of urbanization, industrial concentrations, and interregional rivalries.

5. *Finally, it must be recognized that there are other than monetary returns from higher education. To tie the service to industry, in such a way as to make it largely dependent upon industry for growth and development, would be to lose sight of post-secondary education's responsibility to enrich society in ways other than economic.*

### ALTERNATIVE #3.2 HIGHER EDUCATION SURTAX

The proposed Higher Education Surtax is in many respects similar to the proposed Contingent Repayment Loan Plan. But it differs in very important ways.<sup>19</sup>

The purpose of the ~~Contingent~~ Repayment Plan is to provide investment capital (and subsequently recoup a portion of that investment) for the student who is unable to pay his share of the costs of higher education.

The goal of the Education Surtax Plan is not only to provide investment capital but also, and more importantly, to stabilize the cost/revenue situation by involving all participants (rich and poor, in high rate-of-return or low rate-of-return programs) in a single scheme.

The unique and important feature of the plan is that it is to be universal in its application. Everyone who receives service of any kind and of any duration from a post-secondary institution would be required to pay into a revolving post-secondary fund.

Both individuals and institutions would receive grants from

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<sup>19</sup>See W.J. Platt and J. Abrams, A Self-Financing Fund For Student Charges in Higher Education. (Menlo Park, California: Stanford Research Institute. Project 6747. October, 1968)



the fund according to formula. The fund would be maintained in a "steady state," in relation to costs, through increased taxes on beneficiaries.

Critique: The strongest and most intriguing feature of the plan is compulsory participation. Most other proposals (Opportunity Banks, Contingent Repayment Loans, etc.) calling for voluntary or even restricted participation are of the high risk variety -- inasmuch as they tend to exclude prospective high earners, individuals who can and do obtain educational investments from private sources. This aspect of the plan makes it more likely to be an operational success.

Women pose special problems, because on marriage many of them either stop earning altogether or temporarily halt their incomes during the years of bearing and rearing children. For these reasons and because of continued disparities between men's and women's salaries, the lifetime incomes of college women average about a third of those of men. One possible solution would be to calculate women's rates separately from men's, but this could become a deterrent for women to enter college, especially if they plan on a career. Another alternative might be to impose the women's repayment obligation on her husband but then college women would bear the stigma of a "negative dowry." A reasonable solution would seem to be to consider women's nonrepayment as the losses that must be offset by other high earners. The benefit to society as a whole of having better educated women and mothers provides further rationale for this alternative. An additional problem occurs in the starting of the revolving fund. Unlike the social security program, where each generation pays for benefits before it receives them, the free tuition proposal requires benefits to be distributed before payment is received. Once the taxpaying population includes only those who have received their education through this educational fund, tax rates can be set so that "steady state" is achieved. However, during the transitional period until equilibrium is reached, those who have already paid for their own education will have to contribute again. To minimize this "double jeopardy" we

propose that initial funds be secured by taxation at the rate applying to zero years of post-secondary attainment, with the balance to come from the general tax fund. As soon as the first beneficiaries of the program enter the labor market, the graduated surcharge rates can go into effect. The contribution from the general fund will decrease until equilibrium is established. Taxation as a means of support for student charges in higher education has certain advantages over other forms of funding. From the point of view of the individual, the current requirement that the student bear the burden of tuition charges imposes a one-time (2 to 8 year) burden at a time when the student can least afford it. Loans on a fixed time basis require payment before the "pay-off" of higher education can be received. On the other hand, taxation allows payment to be in increment spread over that part of the individual's life span when earning capacity is the greatest. If the proposed system were in effect, the student would be relieved of financial concerns other than subsistence and could devote himself to his studies. Nor would there be anxiety about repayment in the long run: since the tax is a percentage of gross income, the risk associated with low income is pooled among all members of society. These are especially important considerations for those from poor backgrounds. Taxation also has advantages for financial policy. A tax based on income meets the need of finding a source of support that has good growth potential. Among several revenue sources -- property tax, sales tax, and income tax -- only the income tax has the characteristic of growing as fast or faster than the economy as a whole.<sup>20</sup>

Finally, it must be noted that the basic idea of the proposal is that income benefits are to be derived from extra education. Such data as we have show education to be a sound investment. But these studies are based on present and past income differentials. The assumption in this proposal is that these differentials will continue to exist.

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<sup>20</sup>W.J. Platt and J. Abrams, A Self-Financing Fund for Student Charges in Higher Education, Stanford Research Institute, Menlo Park, California, SRI Project 6747, October, 1968.

However, given the proposition of universal accessibility and the general increase in educational level of the labor force it is conceivable that the supply of well educated labor may well increase to that point where income differentials on the basis of educational differentials may decline appreciably. This possibility is strengthened when one realizes that to an increasing extent the marginal productivity argument for income differentials is being abandoned in the face of administered wage and salary schedules. This phenomenon is a consequence both of the increasing size of the service sector where the marginal productivity argument is almost impossible to prove and of the increasing organization of the labor force.

### ALTERNATIVE #3.3 ANNUAL CREDENTIALS TAX

It has been suggested (in something of a tongue-in-cheek fashion) that one way to provide a marginal source of revenue for post-secondary education would be to levy an annual fee on all degrees and diplomas.

Presumably, the fee would be collected by the federal government, as a surcharge on income tax, or by a provincial manpower planning agency, as a fee for the registration of credentials.

Critique: If the fee were not large, it could become a marginal source of income. If, however, the fee were to be a substantial one, a number of problems would develop.

The administrative and collection costs would be high, particularly if interprovincial mobility increases.



*In the event of non-payment, it would be difficult to impose penalties -- unless the fee were tied to membership in a professional organization.*

*Finally, if the fee were set at a substantial level, it would prove to be regressive in effect -- unless, of course, it were scaled according to income.*

#### 4. Alternative Patterns of Inter-Governmental Cost Sharing

Transfers of funds from one level of government to another (federal to provincial or provincial to local) become necessary when one of three conditions prevail:

- i. when imbalances develop between the burden of responsibilities and sources of revenues;
- ii. when regional inequalities develop with respect to opportunity and tax burden; and
- iii. when one level of government is not willing, as a matter of priority, to invest adequately in a good or service to which the other level of government fixes a higher priority.

The grants through which these transfers are effected are re-referred to, respectively, as Unconditional Grants, Equalizing Grants, and Incentive Grants.

Another kind of transfer is occasionally used when one government provides a service for another government of like level. These transfers usually take the simple form of "payments for service" -- as for example, when one educational authority provides services for the citizens

of another.

In a federal country such as Canada, where the duties and responsibilities of governments are more or less specified in a constitution, it becomes extremely difficult to arrange for transfers of resources while at the same time adhering to the spirit of the constitution with respect to spheres of authority and responsibility.

Some individuals hold that, in support of a service which is constitutionally provincial, the only legal thing for the federal government to do is make unconditional grants -- or simply to return monies collected as income taxes for use by the provinces.

Others argue that, if the service is one which has country-wide importance, the federal authority has every right to make grants in such a way as to achieve national purposes.

Each alternative to be considered here is calculated to achieve a specific purpose and is based upon a specific view of federal-provincial fiscal relationships.

#### ALTERNATIVE #4.1 A NATIONAL FOUNDATION PROGRAM IN POST-SECONDARY EDUCATION

A model for the proposed National Foundation Program in Post-Secondary Education is to be found in the various provincial plans for the financing of elementary and secondary schools. The purposes of the scheme are: (1) to establish minimal standards of post-secondary education to apply to all regions; and (2) to equalize the burden of taxation across the country.<sup>21</sup>

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<sup>21</sup>My considerations of this alternative are based largely upon an unpublished paper by John Graham, "A Proposal for an Equalization Formula for Federal Support of Post-Secondary Education" (Xerox)

In its simplest form, the program would operate as follows: The federal government would pay to all provinces a fixed percentage of certain standard expenditures in post-secondary education. In addition, it would pay an amount equal to the balance of the standard expenditure -- less the amount that the province could raise as measured by a uniform percentage of provincial revenue yield from the sixteen provincial revenue sources at national average rates.

Critique: *The two goals of this proposed plan (equalizing service and equalizing burden) are commendable. If a suitable formula could be found for doing so, it would very likely find acceptance.*

*But the problems -- both political and economic -- are staggering. Consider a few:*

1. *One could ask: is it reasonable to assume that an equalization formula could or should be developed for one public service (post-secondary education) in disregard of other public services? In terms of public policy, higher education cannot be isolated from other forms and levels of education. Nor can it be separated completely from health services, from welfare services, from unemployment services, and so on. Perhaps, then, it is unrealistic, from a policy perspective, to conceive of a just equalization formula for a single public service.*

2. *It has been argued that formula financing of all kinds is dysfunctional in a pluralistic public service -- inasmuch as formulae are inevitably based upon goals, purposes, and priorities and cannot reflect variations from region to region or institution to institution.*

3. *To be truly equalizing, the formula would have to take*



account of all costs and all benefits. For example, the interprovincial flows of students might be a difficult cost factor to subsume; the interprovincial flows of graduates would be a difficult benefit to incorporate.

4. The use of per capita income to determine "ability levels" of the various provinces could be inequitable inasmuch as it would not take into account accumulated wealth or revenues from natural resources.

5. The "catching-up" process in which some of the so-called "poorer provinces" would be required to engage poses a number of issues. First, one must wonder just how appropriate and efficient it would be to expect that the percentage of the 18 - 24 age group enrolled in New Brunswick's post-secondary institutions be equal to that of Ontario. And then one would wonder how the initial costs of the "catch-up" regions should be borne.

6. Finally, it has been demonstrated that the development of a workable formula would be extremely difficult. In one major attempt<sup>22</sup> it was demonstrated that no matter what variants were introduced (various weighted enrolments, variations in standard expenditures, total rather than standard expenditures, potential demand and actual demand, and so on) inequities of various kinds resulted.

The author<sup>22</sup> concluded: (1) that equalization in any specific program can best be achieved through amendments to the general equalization program; (2) that in any equalization program all revenue sources (including municipal) must be taken into account; (3) that the target

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<sup>22</sup>Graham Op Cit

should not be a national average, but rather the standard of the highest two; and (4) that given an adequate program of general equalization, the only problem that would remain in post-secondary education would be the "catch-up" problem of the poorer provinces.

#### ALTERNATIVE #4.2 DIVIDED RATHER THAN SHARED COSTS

A case for a divided-cost approach to federal-provincial fiscal arrangements has been put by the Subcommittee on Research and Planning of the Committee of Presidents of Universities of Ontario in the following terms:

*The present handling of costs creates difficulties for both governments and universities. The federal government has found it difficult to tolerate the open-ended feature of the fiscal transfer arrangements. The provinces have been pressed by the universities to meet the indirect costs of research that is growing at a rate over which provincial governments have little or no control. And the universities - especially the older ones with large programmes of research - have been hard-pressed to cover the indirect costs of research, and are in fact making ends meet at the expense of some of their teaching/learning activities. It can hardly be otherwise in provinces where provincial grants are tied to enrolment and do not reflect the volume of research activity. The problem is further aggravated by the policies of the research councils and some government departments of providing only grants-in-aid of direct research costs, rather than covering all the costs of the research which they support.*

*We believe that the basis of a solution of these dilemmas is for the federal government and the provinces to agree, not to share costs, but to divide them, with each of the parties accepting full responsibility for certain categories of costs. In this way the distortions and pressures created by open-ended agreements and by unilateral decisions can be greatly diminished, if not eliminated.*

*If the principle of divided costs rather than shared costs is adopted the problem becomes one of agreeing*

upon the division of the categories of costs for which each party would accept responsibility. This should be a matter for intensive joint discussion, perhaps for a federal-provincial conference. So far as research is concerned, the aim must be to find a division of responsibilities that enables all the partners in the activity to realize their legitimate aims.<sup>23</sup>

Critique: The so-called Divided Cost Plan appears to be a misleadingly simple solution to a very complex problem.

In essence, the proposal is: first, that functions, tasks, or activities be divided carefully into a number of units; second, that each level of government assume responsibility for those units which seem to fall most appropriately in its sphere of concern; and third that each jurisdiction adopt a procedure for paying the full costs of its "units" of the operation.

The first and most obvious problem would be how to divide functions or tasks. How, for example, does one separate research from preparation for instruction? Or one level of instruction from another? Or the research library from the instructional library?

The second major problem would be how to decide which function is most appropriately whose responsibility. In research, for example, a federal or a provincial responsibility? All research? Or just certain kinds of research?

A third problem would almost certainly follow upon the adoption of such a scheme by virtue of the fact that the generosity of the two sponsoring agencies might differ at any given time -- and, indeed, might vary from time to time. As a consequence, some activities might flourish while others flounder, and no one in the institution or elsewhere could

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<sup>23</sup>Towards Two Thousand, A Report prepared for the Committee of Presidents of Universities of Ontario by its Subcommittee on Research and Planning, January, 1971. pp. X-22 - X-23.



*do anything about it.*

*Finally, the implicit assumption that the divided costs plan would put an end to federal-provincial disagreements over cost-sharing seems a bit naive. Dividing costs is simply another way of sharing costs; it would require the same kind of hard bargaining that cost-sharing now does.*

*So it is doubtful if the plan would achieve anything -- except, perhaps the fragmentation of the institution.*

#### ALTERNATIVE #4.3 UNCONDITIONAL FISCAL TRANSFERS

Many analysts of Canada's federal system insist that the federal government has no right to intervene in education in any way -- except to express an interest, in the form of unconditional fiscal transfers.

Indeed, it has been argued that, since the federal government has taken over the income tax field completely, it owes the province a fair share of the revenues collected through this means for the support of all social services -- including post-secondary education.

So it has been suggested (by certain provincial politicians) that the prevailing system of tax transfers would be the best system, if the transfers were only large enough!

Critique: *The system of fiscal transfers which is now in effect has certain obvious attractions -- some educational, some economic, and some political.*

*But it also has a number of weaknesses which must be carefully analyzed before the system is perpetuated:*

1. In terms of the present formula, it is disequalizing -- inasmuch as the federal return is based upon the provinces' expenditures. Those who can afford to spend more get more; those who can afford to spend less get less.

2. Even if it were based purely upon income tax points (as has been suggested) it would still be disequalizing. The rich provinces would get back far more, proportionally, than would the poor.

3. It is a denial of a federal role (a national purpose) in post-secondary education. At least, it is based upon the assumption that the national purpose is simply the sum total of the ten provincial purposes. When one recognizes that the federal authority has the responsibility for presiding over the national economy and the general national welfare, it is difficult to argue that the federal authority has no stake in post-secondary education, except to fund it.

ALTERNATIVE POLICIES AND STRATEGIES  
IN  
THE FINANCING OF POST-SECONDARY EDUCATION

III.

A FRAMEWORK FOR POLICY-BUILDING

My purpose in this paper has not been to identify the best methods of financing post-secondary education. Nor has it been to recommend to policy-makers any particular alternative or set of alternatives. Instead, the aim has been to inform and facilitate the process of policy choice which must now take place.

Certain guidelines for policy choice have been presented in Section I. These include: first, a conceptual framework, which identifies and orders the various issues to be dealt with; and, second, a socio-political framework, which sets these issues in a context of public opinion and political attitude.

The alternatives, from which choices must be made, have been presented in Section II. These include: first, alternative methods of expanding or limiting the scope of educational opportunity; second, alternative techniques for reducing the cost-to-effectiveness ratio of post-secondary institutions; third, alternative strategies for maintaining parity between costs and revenues; and fourth, alternative forms of inter-governmental cost sharing.

As noted elsewhere, however, no one of the proposals that have



been considered here could constitute anything more than a partial policy -- for the simple reason that no one of them comes to grips with all of the issues involved.

What is now needed, therefore, is a rationale or a framework for combining alternatives, as they are selected, in such a way as to create sets of compatible and complementary policy positions. Such a framework is presented on the next page.

To use this framework for building sets of policies, the policy-maker would proceed through the following sequence of decisions:

I. Decide who or what proportion of the college age group should be provided with opportunities in post-secondary education. Then decide the level and form of subsidy that should be provided (Column I).

II. When a policy has been set with respect to scope of opportunity and the level of subsidy to be provided, costs can be estimated. And when costs have been estimated, decisions can be made as to which sources should provide what proportions of the revenue (Column II).

III. When costs have been established, and decisions have been made regarding the potential sources of revenue, policy discussions can take place between the two levels of government to decide what share each should bear and through what means (Column III).

IV. Finally, institutions can be encouraged to seek ways and means of reducing cost-to-effectiveness ratios and maintaining requirements at a level commensurate with revenue (Column IV).

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# ALTERNATIVE METHODS OF SUBSIDIZING, FINANCING, AND SHARING THE COSTS OF POST-SECONDARY EDUCATION

## A FRAMEWORK FOR POLICY-BUILDING

I. Forms and Methods of Subsidy (Influencing Opportunity Levels)	II. Forms and Methods of Finance and Stabilizing Cost-to-Revenue Relationships	III. Types of Cost-Sharing Between Governments	IV. Strategies for Increasing Efficiency or Reducing Cost-to-Effectiveness Ratios
<p>1. Direct subsidy to institutions to eliminate or reduce fees.</p> <p>2. Direct subsidy to students in the form of unconditional grants.</p> <p>3. Direct subsidy to selected students in the form of means-tested grants or bursaries.</p> <p>4. Direct subsidy to students in the form of repayable loans or Contingent repayment loans.</p> <p>5. Direct subsidy to students in the form of advances against future taxable earnings.</p> <p>6. Direct subsidy to parents or students in the form of tax concessions for educational expenditures.</p> <p>NOTE: The decision here may be to choose more than one of the possible alternatives. But whatever pattern of subsidy is chosen, it will most certainly reflect a position with respect to the desired level of opportunity to be provided. That position should be consciously taken before the alternatives are considered.</p>	<p>1. General taxation of income.</p> <p>2. General taxation on expenditures such as sales taxes and excise taxes.</p> <p>3. Royalties from natural resources and subsidies from industry.</p> <p>4. Loan repayments of past students.</p> <p>5. Special taxes on graduates' or participants' income.</p> <p>NOTE: Alternatives 1, 2, and 3 are simply possible sources of government revenue which may be used, among other things, to support post-secondary education. Alternatives 4 and 5, however, might be considered as ways of linking revenues to costs and, hence, of stabilizing cost-to-revenue relationships.</p>	<p>1. Conditional or unconditional tax rebatements.</p> <p>2. Formula for divided or shared costs.</p> <p>3. Formula and incentive grants for equalization payments from the federal authority.</p> <p>4. Federal subsidies through grants and/or repayable loans or contingent repayable loans to students.</p> <p>5. Federal government advances to students as charges against future taxable earnings.</p> <p>NOTE: Alternatives 1, 2 and 3 are conventional forms of fiscal transfers. Alternative 7 and 8, however, are unique, inasmuch as they suggest transfers through clients or consumers rather than directly to governments or institutions. In short, it is proposed in these two alternatives, that the federal government subsidize the individuals purchase of a provincial service.</p>	<p>1. Increasing the use of plant and facilities.</p> <p>2. Offering programs and enrolling students in the most economical institutions.</p> <p>3. Reducing the length of professional education.</p> <p>4. Inter-institutional and regional cooperation and sharing of resources.</p> <p>5. Initiation of cost/effectiveness based planning (P.P.B.S.).</p> <p>NOTE: The alternatives proposed here are illustrative only and certainly do not exhaust the possibilities. What is suggested is that incremental approaches to educational planning and development give way, in light of escalating costs, to planning procedures which are more cost-benefit and cost-effectiveness oriented.</p>



It will not be a simple matter to select the best from the alternatives that have been identified in this paper; careful deliberation will be required. Nor will it be proper for any jurisdiction to select unilaterally; negotiations will be required. And when selections have been made, it must not be assumed that these will remain appropriate for any extended period of time; continuous reexamination will be required.

In what forum will these deliberations, negotiations and reexaminations take place?





